

## STATE OF SOUTH CAROLINA

South Carolina Electric & Gas Company – Application For  
Mid-Period Adjustment In Two Phases Of Base Rates  
Charged by SCE&G for the Recovery of Fuel Costs  
Associated With Its Service To Retail Electric Customers

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA

## COVER SHEET

## DOCKET

NUMBER: 2008 - 302 - E

(Please type or print)

Submitted by: K. Chad BurgessSC Bar Number: 69456

Address: SCANA Corp.  
1426 Main Street MC 130  
Columbia, SC 29201

Telephone: 803-217-8141Fax: 803-217-7931

Other: \_\_\_\_\_

Email: chad.burgess@scana.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

## DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☒ Request for item to be placed on Commission's Agenda expeditiously

☐ Other: \_\_\_\_\_

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input checked="" type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		



October 24, 2008

**VIA ELECTRONIC FILING**

The Honorable Charles Terreni  
Chief Clerk/Administrator  
**Public Service Commission of South Carolina**  
101 Executive Center Drive  
Columbia, South Carolina 29211

RE: South Carolina Electric & Gas Company – Application for Mid-Period  
Adjustment in Two Phases of Base Rates Charged by SCE&G for the Recovery  
of Fuel Costs Associated with its Service to Retail Electric Customers  
Docket No. 2008-302-E

Dear Mr. Terreni:

On October 20, 2008, the Public Service Commission of South Carolina (“Commission”) conducted a hearing in the above-referenced docket. At the conclusion of the hearing, the Commission requested that a proposed order be submitted. Enclosed you will find a proposed order entitled “Order on Mid-Period Adjustment and Approving and Adopting Settlement Agreement.”

By copy of this letter, we are providing all other parties of record with a copy of the proposed order and enclose a certificate of service to that effect.

Thank you in advance for the expeditious treatment of this matter. If you have any questions or concerns, please do not hesitate to contact us.

Very truly yours,



K. Chad Burgess

KCB/kms  
Enclosure

cc: Shannon Bowyer Hudson, Esquire  
Scott Elliott, Esquire  
Damon Xenopoulos, Esquire  
Wade Mullins, Esquire  
Pamela Greenlaw  
(all via First Class U.S. Mail w/enclosures)

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2008-302-E**

IN RE:

Application of South Carolina Electric &     )  
Gas Company for a Mid-Period Adjustment     )  
In Two Phases of Base Rates Charged by     )  
South Carolina Electric & Gas Company for     )  
The Recovery of Fuel Costs Associated with     )  
Its Service to Retail Electric Customers     )  
\_\_\_\_\_)

**CERTIFICATE  
OF SERVICE**

This is to certify that I have caused to be served this day one (1) copy of the  
proposed **Order on Mid-Period Adjustment and Approving and Adopting  
Settlement Agreement** to the persons named below via First Class U.S. Mail:

Shannon Bowyer Hudson, Esquire  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201

Scott Elliott, Esquire  
Elliott & Elliott  
721 Olive Street  
Columbia, SC 29205

E. Wade Mullins, Esquire  
Bruner Powell Robbins Wall & Mullins LLC  
PO Box 61110  
Columbia, SC 29260

Damon E. Xenopoulos, Esquire  
Brickfield, Burchette, Ritts & Stone, PC  
1025 Thomas Jefferson Street NW  
8<sup>th</sup> Floor West Tower  
Washington, DC 20007-5201

Pamela Greenlaw  
1001 Wotan Road  
Columbia, SC 29229

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Karen M. Scruggs

Columbia, South Carolina

This 24th day of October 2008

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2008-302-E – ORDER NO. 2008 - \_\_\_\_**  
**OCTOBER \_\_, 2008**

IN RE:

Application of South Carolina	)	
Electric & Gas Company for	)	ORDER ON MID-PERIOD ADJUSTMENT
Mid-Period Adjustment of Base	)	AND APPROVING AND ADOPTING
Rates for the Recovery of Electric	)	SETTLEMENT AGREEMENT
Fuel Costs.	)	
_____	)	

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the application of South Carolina Electric & Gas Company (“SCE&G” or the “Company”), pursuant to S.C. Code Ann. § 58-27-865(d) (Supp. 2007) and 26 S.C. Code Ann. Regs. 103-823 (1976, as amended) for an order permitting a mid-period adjustment in the base rates charged by SCE&G for the recovery of fuel costs associated with its service to retail electric customers.

A Notice of Filing and Hearing regarding SCE&G’s application was prepared and, pursuant to the instructions of the Commission’s Docketing Department, was published in newspapers of general circulation in the affected areas. In addition, a copy of the Notice of Filing and Hearing was mailed by United States first class mail service directly to customers receiving service from SCE&G.

The Notice of Filing and Hearing established September 19, 2008, as the date by which interested parties or entities could timely file petitions to intervene or present their views in

writing with the Commission. The South Carolina Energy Users Committee (“SCEUC”), CMC Steel South Carolina (“CMC Steel”), and Pamela Greenlaw (“Ms. Greenlaw”) each filed a Petition to Intervene, which the Commission granted. No other petitions to intervene were filed with the Commission.

The Commission conducted a formal hearing in this matter on October 20, 2008, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. K. Chad Burgess, Esquire, Belton T. Zeigler, Esquire, and Mitchell Willoughby, Esquire represented SCE&G. Shannon Bowyer Hudson, Esquire appeared on behalf of the South Carolina Office of Regulatory Staff (“ORS”). Scott Elliott, Esquire, represented the SCEUC and Ms. Greenlaw appeared *pro se*. CMC Steel did not appear at the hearing. In this Order, SCE&G, ORS, SCEUC, CMC Steel and Ms. Greenlaw are collectively referred to as the “Parties.”

At the outset of the hearing, counsel for ORS, on behalf of the Parties, presented the Settlement Agreement that was filed with the Commission on October 13, 2008. The Settlement Agreement is attached to this Order as Order Exhibit 1 and by this reference is incorporated in and made part of this Order. In the Settlement Agreement, which was admitted into the evidence of record as Hearing Exhibit 1, the Parties represented to the Commission that they had discussed the issues presented in this case and determined that each Party’s interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

At the hearing, SCE&G presented the direct testimony of Gerhard Haimberger, General Manager, Fuel Procurement and Asset Management for SCANA Services, Inc.; Rose Jackson, General Manager-Gas Supply and Capacity Management; Dr. Joseph M. Lynch, Manager of

Resource Planning for SCANA Services, Inc.; and Allen W. Rooks, Supervisor of Electric Pricing and Rate Administration. ORS presented the direct testimony of M. Anthony James, Senior Specialist in the Electric Department of ORS. The pre-filed testimony and exhibits of each witness were entered into the record without objection. SCEUC, CMC Steel and Ms. Greenlaw did not present any witnesses at the hearing

SCE&G witness Haimberger testified that fundamental changes had occurred in the domestic and global coal markets since the Company's last annual fuel adjustment hearing in Docket No. 2008-2-E. Mr. Haimberger explained that coal prices had become extremely volatile with Free on Board ("f.o.b.") mine prices rising from about \$40 per ton to around \$80 per ton before the inclusion of transportation costs. These price increases and market volatility was driven by and continues to be driven by new global demand, mining and transportation problems in foreign coal producing countries, coal mining constraints in the U.S. and an unprecedented increase in U.S. coal exports. Mr. Haimberger also testified that global changes in coal markets, coupled with a weakening U.S. dollar were having a profound effect on U.S. markets. As a result of these conditions, the price for low sulfur, high BTU coal for prompt delivery spiked above \$150 per ton in July 2008. Mr. Haimberger concluded his testimony by stating that the industry's outlook for forward coal prices on July 1, 2008, ranged from \$161.00 per ton f.o.b. mine for prompt delivery to \$140.00 in 2011.

Company witness Jackson testified that natural gas prices during the current period were more volatile than normal as the declining value of the U.S. dollar contributed to escalating crude oil prices which, in turn, increased the comparative value of natural gas. Ms. Jackson testified that a cold January 2008 created pressure on supply and resulted in the market moving prices from \$7.50 per dekatherm to a high of \$10.29 per dekatherms in mid-March. Further

price increases occurred as a result of below average underground storage levels and U.S. natural gas supply expectations which were not being met due to a decline in Canadian imports coupled with liquefied natural gas cargoes being routed to Europe and Asia. In addition, projections of an above normal hurricane season and warmer than normal summer temperatures also heightened the concern of supply availability in the market and unseasonably high temperatures experienced in the Southeast increased demand for natural gas to serve electric generation. Ms. Jackson testified that these conditions resulted in natural gas prices climbing to an all time summer high of \$13.69 per dekatherm on July 2, 2008, with oil prices also reaching an all time high of \$147.27 per barrel on July 11, 2008. However, in the third quarter of 2008, the U.S. dollar began to strengthen and natural gas prices declined to the \$7.00 to \$8.00 range. Ms. Jackson concluded her testimony by stating that SCE&G anticipates continued volatility in the natural gas market.

SCE&G witness Lynch testified to forecasting methodologies. Dr. Lynch explained that each summer SCE&G forecasts the growth in the number of customers and their energy consumption by categories of rate, class and SIC code using econometric models, statistical time series models and experience. Dr. Lynch testified that SCE&G's forecasting methodology involves analyzing voluminous amounts of detailed data and is a fairly standard approach used in the industry. Dr. Lynch also testified that SCE&G's mean absolute percent forecast error on weather normalized sales averaged about 1.4% over the last ten (10) years. In addition, Dr. Lynch testified that SCE&G uses a computer program called PROSYM to project the dispatch of SCE&G's generating units to serve its customers. PROSYM is a widely used tool in the utility industry and assists the Company with simulating the operation of SCE&G's power plants to generate the required energy and project the resulting fuel requirements for the system. The



inputs to PROSYM include: the projected customer loads, projected fuel prices, the operating parameters of each generating unit and the projected market price for power. Dr. Lynch concluded his testimony by stating that the dramatic rise in coal and natural gas prices was the basis for SCE&G's decision to seek a mid-period adjustment to its fuel cost factor.

SCE&G witness Rooks testified that in Order No. 2008-323, the Commission approved a Base Fuel Component for all retail customer classes and an Environmental Fuel Component for the Residential, Small General Service, Medium General Service and Large General Service rate classes and that as of August 31, 2008, SCE&G's Electric Base Fuel Component balance is under-recovered by \$125,791,213. *See* Hearing Exhibit 3. Mr. Rooks explained that if the currently authorized base fuel component of 2.641 cents per kWh were to remain in place through April 2009, the Company projects that the under-recovery balance for base fuel costs would rise to approximately \$189.7 million. *Id.* Mr. Rooks testified that in order to eliminate the under-recovery balance by the end of April 2009, the base fuel component would need to be set at approximately 4.425 cents per kWh effective in November 2008. *Id.* Rather than implement a single adjustment designed to fully collect the under-recovery balance, SCE&G recommended a two-phase adjustment to its base fuel component which was designed to lower, but not eliminate, the under-recovery balance. Mr. Rooks testified that the Company was proposing the base fuel component of its retail electric rates be increased from 2.641 cents per kWh to 3.291 cents per kWh effective for bills rendered on and after the first billing cycle of November 2008, and from 3.291 cents per kWh to 3.941 cents per kWh effective for bills rendered on and after the first billing cycle of January 2009. Based upon the Company's projections, Mr. Rooks stated that the proposed changes would lower the estimated under-recovery balance for base fuel costs to approximately \$73.7 million by the end of April 2009. *Id.*

ORS witness James testified in support of the Settlement Agreement and discussed ORS's recommendations for adjusting the base fuel component. Mr. James stated that ORS keeps abreast of the coal and natural gas industries including transportation through industry publications on a daily basis. Mr. James also testified that since the filing of SCE&G's application, ORS was aware of recent moderation in fuel prices that occurred in September 2008. As a result, ORS requested that SCE&G generate an updated forecast to reflect the most current costs of natural gas and coal. Mr. James testified that SCE&G complied with ORS's request and that the updated forecast generated measurable reductions in projected fuel costs through the forecast period of September 2008 to April 2009. ORS then evaluated the impact of a single increase to 3.291 cents per kWh using the updated data. Mr. James testified that the evaluation resulted in a cumulative under-recovery balance of \$85,062,527 through April 2009. *See* Hearing Exhibit 2. ORS presented its findings and recommendations to the Parties who agreed to accept ORS's recommendation of a single increase to the Company's base fuel component of its retail electric rates from 2.641 cents per kWh to 3.291 cents per kWh effective for bills rendered on and after the first billing cycle of November 2008.

The testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in November 2008 and continuing through the last billing cycle of April 2009, which are listed in the table below:

<b>Class</b>	<b>Base Fuel Cost Component (cents/KWH)</b>	<b>Environmental Fuel Cost Component (cents/KWH) set forth in Docket No. 2008-2-E</b>	<b>Total Fuel Costs Factor (cents/KWH)</b>
Residential	3.291	0.101	3.392
Small General Service	3.291	0.087	3.378
Medium General Service	3.291	0.075	3.366
Large General Service	3.291	0.044	3.335
Lighting	3.291	-	3.291

The Environmental Fuel Cost components in the table above shall remain the same as set forth in Docket No. 2008-2-E. Moreover, the Commission finds that the Base Fuel Component of 3.291 cents per kWh will not totally eliminate SCE&G's under-recovery balance but will reduce the current under-recovery balance to approximately \$85,062,527 through April 2009. Any outstanding under-recovery balance through April 2009, will be addressed in the Company's next regularly scheduled fuel hearing in Docket No. 2009-2-E in accordance with S.C. Code Ann. § 58-27-865 (Supp. 2007).

After hearing the evidence and testimony of the witnesses and reviewing the Settlement Agreement, the Commission finds and concludes that the Base Fuel Cost Component should be adjusted to reflect the dramatic and unexpected changes in the market prices of coal and natural gas. The Commission also finds that the Settlement Agreement balances the interests of SCE&G with that of the public and allows for the recovery by SCE&G of incurred fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes in charges to customers. As such, the Settlement Agreement is in the public interest as a reasonable resolution of the issues in this case and that it stabilizes the fuel factors through the last billing cycle of April 2009. We also find that resolution of the issues among the Parties as set forth in the Settlement Agreement does not appear to inhibit economic development.

Furthermore, based upon the evidence presented, we find that due to the expedited schedule associated with this docket ORS was unable to perform a comprehensive evaluation or an audit of the Company's books and records in this proceeding. Therefore, SCE&G's recovery of any fuel costs under this Order, as well as those amounts recovered for those months not audited by ORS, are subject to a full and complete prudence review by ORS and shall be open issues for challenge by any party in the next regularly scheduled fuel hearing to be held in Docket No. 2009-2-E under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2007).

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement is incorporated herein by reference and is found to be a reasonable resolution to the issues of this case and further found to be in the public interest.
2. SCE&G shall set its Total Fuel Cost Factors consistent with the amounts set forth in the table below effective for bills rendered on and after the first billing cycle in November 2008 and continuing through the last billing cycle of April 2009.

<b>Class</b>	<b>Base Fuel Cost Component (cents/KWH)</b>	<b>Environmental Fuel Cost Component (cents/KWH) set forth in Docket No. 2008-2-E</b>	<b>Total Fuel Costs Factor (cents/KWH)</b>
Residential	3.291	0.101	3.392
Small General Service	3.291	0.087	3.378
Medium General Service	3.291	0.075	3.366
Large General Service	3.291	0.044	3.335
Lighting	3.291	-	3.291

3. The Environmental Fuel Cost components shall remain the same as set forth in Docket No. 2008-2-E.

4. Any outstanding under-recovery balance through April 2009, will be addressed in the Company's next regularly scheduled fuel hearing in Docket No. 2009-2-E in accordance with S.C. Code Ann. § 58-27-865 (Supp. 2007).

5. SCE&G's recovery of any fuel costs under this Order, as well as those amounts recovered for those months not audited by ORS, are subject to a full and complete prudence review by ORS and shall be open issues for challenge by any party in the next regularly scheduled fuel hearing to be held in Docket No. 2009-2-E under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2007).

6. The Parties shall abide by all terms of the Settlement Agreement.

7. SCE&G shall file with the Commission a copy of its tariff sheet entitled "Adjustment For Fuel and Variable Environmental Costs" and all other retail tariff sheets within ten (10) days of receipt of this Order and serve a copy on ORS.

8. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865(B) (Supp. 2007).

9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
Elizabeth E. Fleming, Chairman

ATTEST:

\_\_\_\_\_  
John E. Howard, Vice-Chairman